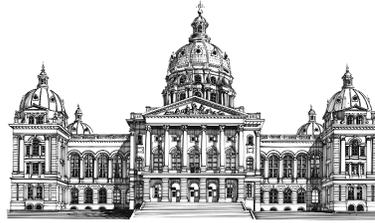

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State Capitol
Des Moines, IA 50319
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Road Use Tax Fund Revenue Update

ISSUE

This *Issue Review* provides background information on the Road Use Tax Fund and the programs funded.

AFFECTED AGENCIES

Department of Transportation (DOT)
Department of Inspections and Appeals
Local governments

CODE AUTHORITY

Section 312.2, Code of Iowa
Section 307A.2(12), Code of Iowa
Section 321.52A, Code of Iowa
Section 321.190(1)(d), Code of Iowa
Section 422.11C, Code of Iowa
Section 455D.11C, Code of Iowa

BACKGROUND

In FY 2003, \$1.057 billion was collected and distributed through the Road Use Tax Fund, which was primarily used for construction and maintenance of highways. The major revenue sources of the Fund include:

- Taxes on fuels
- Fees collected on vehicle registrations, titles, and driver's licenses
- Use tax collected on motor vehicle purchases
- Underground storage tank fees
- Motor carrier fines
- Interest income

Under Section 8, Article VII, Constitution of the State of Iowa, except for administrative costs, all vehicle registration fees, license fees, and motor vehicle fuel taxes are mandated to be

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spent for the construction, maintenance, and supervision of the State's public highways. The use tax on motor vehicles and equipment, however, is exempt from the constitutional mandate.

CURRENT SITUATION

Revenues

Table 1 below illustrates actual FY 2003 Road Use Tax Fund revenues and projected revenues for the next five fiscal years as forecasted by the Department of Transportation (DOT). Before revenues from the motor vehicle use tax are deposited into the Fund, various programs and projects are funded from the use tax. In FY 2003, 39.3% of revenues were derived from motor vehicle fuel taxes, 35.0% from registration and title fees, 20.5% from use tax on motor vehicle sales, and 5.2% from other sources.

TABLE 1
ROAD USE TAX FUND RECEIPTS
(in millions)

	<u>Actual</u> <u>FY 2003</u>	<u>Estimated</u> <u>FY 2004</u>	<u>Estimated</u> <u>FY 2005</u>	<u>Estimated</u> <u>FY 2006</u>	<u>Estimated</u> <u>FY 2007</u>	<u>Estimated</u> <u>FY 2008</u>
Motor Vehicle Use Tax	\$ 263.0	\$ 266.8	\$ 272.9	\$ 276.0	\$ 279.4	\$ 279.4
Commercial and Industrial Network	-28.3	-26.8	-27.3	-27.6	-27.9	-27.9
Underground Tank Loan	-17.0	-17.0	-17.0	-17.0	-17.0	-17.0
Dept. of Inspection & Appeals	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Net Use Tax	\$ 216.4	\$ 221.9	\$ 226.3	\$ 228.8	\$ 232.1	\$ 232.1
Motor Vehicle Fuel Tax	\$ 414.9	\$ 423.1	\$ 427.5	\$ 430.7	\$ 439.6	\$ 443.3
Registration/Title Fees & Misc.	370.0	379.8	386.8	396.2	404.8	409.5
Underground Tank Fees	20.5	20.5	20.5	20.5	20.5	20.5
Driver's License Fees	13.0	20.5	17.0	12.1	5.4	12.7
Interest	8.3	8.3	8.4	8.4	8.5	8.5
Other	13.7	13.7	12.5	12.5	13.7	14.6
Total	<u>\$ 1,056.7</u>	<u>\$ 1,087.7</u>	<u>\$ 1,098.9</u>	<u>\$ 1,109.3</u>	<u>\$ 1,124.5</u>	<u>\$ 1,141.1</u>

NOTE: Numbers may not equal totals due to rounding.

Appropriations

A portion of the Road Use Tax Fund revenues is appropriated either through standing appropriations established in the Code of Iowa, or through the annual appropriations process. These "off-the-top" allocations are used to fund various programs, equipment purchases, facility improvements, and departmental operations. **Table 2** illustrates actual FY 2003 and estimated appropriations through FY 2008, and projects the amount of revenue available for distribution after the appropriations are made.

TABLE 2
ROAD USE TAX FUND
OFF-THE-TOP ALLOCATIONS AND APPROPRIATIONS
(in millions)

	Actual FY 2003	Estimated FY 2004	Estimated FY 2005	Estimated FY 2006	Estimated FY 2007	Estimated FY 2008
Total Receipts	\$ 1,056.7	\$ 1,087.7	\$ 1,098.9	\$ 1,109.3	\$ 1,124.5	\$ 1,141.1
Statutory Allocations						
1. Primary (to Primary Rd. Fd.)	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5
2. Farm-to-Market (to Farm-to-Market Rd. Fd.)	1.5	1.5	1.5	1.5	1.5	1.5
3. Secondary (to Secondary Rd. Fd.)	9.8	10.0	10.1	10.2	10.4	10.3
4. RISE						
State (to Primary Rd. Fd.)	21.8	22.2	22.5	22.7	23.1	23.0
City	10.9	11.1	11.2	11.3	11.6	11.5
County	1.1	1.1	1.1	1.1	1.2	1.1
5. Park & Institutional Roads (to Primary Rd. Fd.)	6.8	7.0	7.1	7.1	7.2	7.3
6. Secondary & Urban (to Primary Rd. Fd.)	0.5	0.5	0.5	0.5	0.5	0.5
7. Living Roadway	0.3	0.3	0.3	0.3	0.3	0.3
8. Railroad Crossing Surface Repair Fund	0.9	0.9	0.9	0.9	0.9	0.9
9. Railroad Crossing Safety Fund	0.7	0.7	0.7	0.7	0.7	0.7
10. Secondary Bridge	2.0	2.0	2.0	2.0	2.0	2.0
11. City Bridge	0.5	0.5	0.5	0.5	0.5	0.5
12. License Plate Production	2.5	3.0	3.0	3.0	3.0	3.0
13. Highway Safety Projects	5.2	5.4	5.4	5.5	5.6	5.6
14. Driver's License Suspension Service	0.2	0.2	0.2	0.2	0.2	0.2
15. Public Transit (Use Tax)	10.1	10.7	10.9	11.0	11.2	11.2
16. Motorcycle Education Fund (Use Tax)	0.3	0.3	0.3	0.2	0.1	0.3
17. County Treasurers Equipment	0.7	0.7	0.7	0.7	0.7	0.7
18. Fuel Tax Refunds	0.2	0.2	0.2	0.3	0.3	0.3
Total Statutory Allocations	\$ 87.4	\$ 89.8	\$ 90.6	\$ 91.2	\$ 92.3	\$ 92.4
Appropriations						
19. DOT Operating Appropriation	\$ 34.7	\$ 38.3	\$ 39.4	\$ 39.4	\$ 39.4	\$ 39.4
20. Vehicle Reg. System/Special Projects	5.0	5.0	5.0	5.0	5.0	5.0
21. Driver's License Costs (Polaroid Lease)	4.0	2.8	2.8	2.8	2.8	2.8
22. Other Appropriations	0.4	0.5	0.6	0.6	0.6	0.6
Total Appropriations	\$ 44.1	\$ 46.6	\$ 47.8	\$ 47.8	\$ 47.8	\$ 47.8
TOTAL OFF-THE-TOP ALLOCATIONS	\$ 131.5	\$ 136.4	\$ 138.4	\$ 139.0	\$ 140.1	\$ 140.2
TOTAL AVAILABLE FOR DISTRIBUTION (Receipts less Off-The-Top Allocations)	\$ 925.3	\$ 951.4	\$ 960.5	\$ 970.3	\$ 984.5	\$ 1,000.9

NOTE: Numbers may not equal totals due to rounding.

Distribution

After the off-the-top allocations are funded, the remaining revenues in the Fund are distributed based on formulas to the Primary, Secondary, Farm-to-Market, and Municipal road funds as follows: 47.5% to Primary, 24.5% to Secondary, 20.0% to Municipal, and 8.0% to Farm-to-Market.

Senate File 451 (FY 2004 Road Jurisdiction and Funding Act) allowed the transfer of jurisdiction of approximately 700 miles of State primary roads classified as Local Service Roads to cities and counties. As a result, cities and counties receive a portion of the State's share of the Primary Road Fund. From FY 2004 and FY 2005, following the 47.5% Road Use Tax Fund allocation to the Primary Road Fund, 1.75% of Primary Road Fund moneys (approximately \$7.9 annually) are

credited to the Transfer of Jurisdiction Fund created under the Act. The funds are then transferred to cities and counties as follows:

- 75.0% (approximately \$5.9 million annually) to cities and counties that assume jurisdiction of primary roads.
 - 90.0% (approximately \$5.3 million annually) to counties.
 - 10.0% (approximately \$600,000 annually) to cities.
- 22.5% (approximately \$1.8 million annually) to all counties.
- 2.5% (approximately \$200,000 annually) to all cities.

In FY 2014 and beyond, the Transfer of Jurisdiction Fund will be eliminated, and the 1.75% of Primary Road Fund moneys will be distributed to cities and counties as follows:

- 90.0% (approximately \$7.1 million annually) to all counties.
- 10.0% (approximately \$790,000 annually) to all cities.

In FY 2005, jurisdiction and control of approximately 360 miles of farm-to-market road extensions in cities with a population of less than 500 will be transferred to the respective counties. A portion of the Municipal Road Fund from cities that transferred jurisdiction of farm-to-market extensions to counties (approximately \$2.0 million) will be transferred to the respective counties.

Table 3 illustrates the distribution of the net Road Use Tax fund revenues available to the four road funds in actual FY 2003 through estimated FY 2008, after the shift in funding due to the transfer of road jurisdictions in FY 2004 through FY 2013.

TABLE 3
ROAD USE TAX FUND
DISTRIBUTION SUMMARY
(in millions)

	Actual FY 2003	Estimated FY 2004	Estimated FY 2005	Estimated FY 2006	Estimated FY 2007	Estimated FY 2008
Primary Road Fund (47.5%)	\$ 439.5	\$ 451.9	\$ 456.3	\$ 460.9	\$ 467.6	\$ 475.4
– 1.75% to Transfer of Jurisdiction Fund	0.0	-7.9	-8.0	-8.1	-8.2	-8.3
Total Primary Road Fund Allocation	\$ 439.5	\$ 444.0	\$ 448.3	\$ 452.8	\$ 459.4	\$ 467.1
Secondary Road Fund (24.5%)	226.7	233.1	235.3	237.7	241.2	245.2
– Counties that assume jurisdiction of Primary Roads (FY 2004 to FY 2013)	0.0	5.3	5.4	5.5	5.5	5.6
– Counties that assume jurisdiction of Farm-to-Market Road Extensions (FY 2005 and Beyond)	0.0	0.0	2.0	2.0	2.0	2.0
– All Counties	0.0	1.8	1.8	1.8	1.8	1.9
Total Secondary Road Fund Allocation	\$ 226.7	\$ 240.2	\$ 244.5	\$ 247.0	\$ 250.6	\$ 254.7
Farm-to-Market Road Fund (8.0%)	74.0	76.1	76.8	77.6	78.8	80.1
Total F-to-M Road Fund Allocation	\$ 74.0	\$ 76.1	\$ 76.8	\$ 77.6	\$ 78.8	\$ 80.1
Municipal Road Fund (20.0%)	185.1	190.3	192.1	194.1	196.9	200.2
– Cities that assume jurisdiction of Primary Roads (FY 2004 to FY 2013)	0.0	0.6	0.6	0.6	0.6	0.6
– Cities that transfer jurisdiction of Farm-to-Market Road Extensions (FY 2005 and Beyond)	0.0	0.0	-2.0	-2.0	-2.0	-2.0
– All Cities	0.0	0.2	0.2	0.2	0.2	0.2
Total Municipal Road Fund Allocation	\$ 185.1	\$ 191.1	\$ 190.9	\$ 192.9	\$ 195.7	\$ 199.0
Total Road Use Tax Fund Allocations	\$ 925.3	\$ 951.4	\$ 960.5	\$ 970.3	\$ 984.5	\$ 1,000.9

The allocations shown in **Table 2** that were attributed to a particular road fund are included in the formula allocation amounts for each respective fund listed in **Table 3**. In FY 2003, 41.6% of revenues were deposited into the Primary Road Fund, 21.5% into the Secondary Road Fund, 7.0% into the Farm-to-Market Road Fund, 17.5% into the Municipal Road Fund, and 12.4% was distributed as allocations and appropriations for other individual programs and projects (as shown in **Table 2**). **Attachment A** provides a flowchart that summarizes actual FY 2003 revenues and allocations.

FIVE-YEAR FORECAST

The DOT is required to submit an annual report detailing how the Department proposes to improve the State's transportation system over the next five years. The five-year plan is based on projected federal and State revenues, and the associated costs of each project. In determining projected revenues, the Department develops a five-year forecast based on the most recent fiscal year data.

In comparing actual versus estimated revenues, the actual receipts for FY 2003 were \$11.2 million (1.1%) more than the forecast for FY 2003. Between FY 2004 and FY 2008, the DOT estimates that overall Road Use Tax Fund revenues will increase by a total of \$53.4 million (4.9%). Revenues are expected to increase in the categories listed below:

- Motor vehicle use tax: 4.6%
- Motor vehicle fuel tax: 4.8%
- Motor vehicle registration fees: 7.8%
- Interest income: 3.0%
- Other: 6.6%

Driver's license fee revenues are anticipated to decrease by 3.8% over the next five years, and are anticipated to fluctuate due to recent legislative changes. Senate File 2192 (FY 2003 Transportation Omnibus Act) changed the maximum length of time that a driver's license could be issued from four to five years. Senate File 97 (FY 2004 DOT Omnibus Act) authorized a one-time surcharge fee of \$3.00 for driver's licenses, in addition to the license fee. The surcharge fee is in effect from July 1, 2003, to June 30, 2008.

The five-year forecast is subject to change based on shifts in revenue, inflation, and federal or State legislative action.

RECENT LEGISLATIVE CHANGES AFFECTING THE ROAD USE TAX FUND

Changes in Tax Credits on Gasoline

In 2001, the General Assembly enacted HF 716 (FY 2002 Ethanol Sales Promotion Act). The Act provided a tax credit of 2.5 cents per gallon on ethanol-blended gasoline (gasohol) in stations with gasohol sales of at least 60.0% of the total annual gasoline and gasohol volume. It is estimated that these tax credits will reduce General Fund receipts by \$1.3 million in FY 2004 and by \$2.2 million in FY 2005.

House File 716 also provided for changes in tax rates based on the gallons of ethanol-blended gasoline sold in the State each calendar year. The rate changes will apply in the following State fiscal year. The Act allowed the tax rates to change each July 1, depending on the percentage of

ethanol-blended gasoline sold during the previous calendar year. Prior to the enactment of HF 716, the State taxed gasoline at 20.0 cents per gallon and ethanol at 19.0 cents.

The following tax schedule was implemented on July 1, 2002, and will be effective through June 30, 2007. The Act provided that after June 30, 2007, the excise tax on gasoline will revert to 20.0 cents per gallon, and gasohol will increase from 19.0 to 20.0 cents per gallon.

<u>Ethanol Percentage</u>	<u>Ethanol Tax</u>	<u>Gasoline Tax</u>
0% - 50%	19.0	20.0
50% - 55%	19.0	20.1
55% - 60%	19.0	20.3
60% - 65%	19.0	20.5
65% - 70%	19.0	20.7
70% - 75%	19.0	21.0
75% - 80%	19.3	20.8
80% - 85%	19.5	20.7
85% - 90%	19.7	20.4
90% - 95%	19.9	20.1
95% - 100%	20.0	20.0

For Calendar Year 2002, the market share of ethanol-blended gasoline was 55.5%. Since this percentage is within the 55.0-60.0% range, the tax on regular gasoline increased by 0.2 cent, for a tax rate of 20.3 cents per gallon beginning July 1, 2003. The result will be an estimated increase of \$2.4 million (0.6%) for the Road Use Tax Fund in FY 2004. The increased revenue will be used to offset losses in Road Use Tax Fund revenues due to the increasing market share of ethanol-blended gasoline.

Waste Tire Management Fund

In 1996, the General Assembly passed House File 2433 (FY 1997 Waste Tire Management Act). The Act required the Department of Natural Resources (DNR) to initiate a Waste Tire Management Program to eliminate non-compliant tire stockpiles, establish future markets for waste tires, and educate the public on safe disposal of tires at the local level.

To initiate the Program, a Waste Tire Management Fund was created by the Act. House File 2433 amended Section 321.52A, Code of Iowa, to provide that from FY 1997 through FY 2002, a portion of the \$5.00 surcharge fee collected on each certificate of title would be credited to the Fund, a portion would be deposited into the Road Use Tax Fund, and the remainder would be deposited into the General Fund. (Prior to this, surcharge fees were deposited into the General Fund only.) The original intent of HF 2433 was to eliminate the Waste Tire Management Program over time, and to redirect moneys in the Fund to the Road Use Tax Fund, because tires are considered an entity of vehicles.

From FY 1997 through FY 2002, \$15.0 million in surcharge fees was deposited into the Waste Tire Management Fund, approximately \$17.0 million was deposited into the General Fund, and \$1.0 million was deposited into the Road Use Tax Fund.

House File 2554 (FY 2003 Tire and Waste Tire Initiatives – Management, Regulation, and Use of Funds Act) authorized that from FY 2003 through FY 2007, 20.0% of the \$5.00 surcharge fee collected be deposited into the Waste Tire Management Fund to continue the Program. The remaining moneys are to be deposited into the Road Use Tax Fund. In FY 2003, \$983,000 was

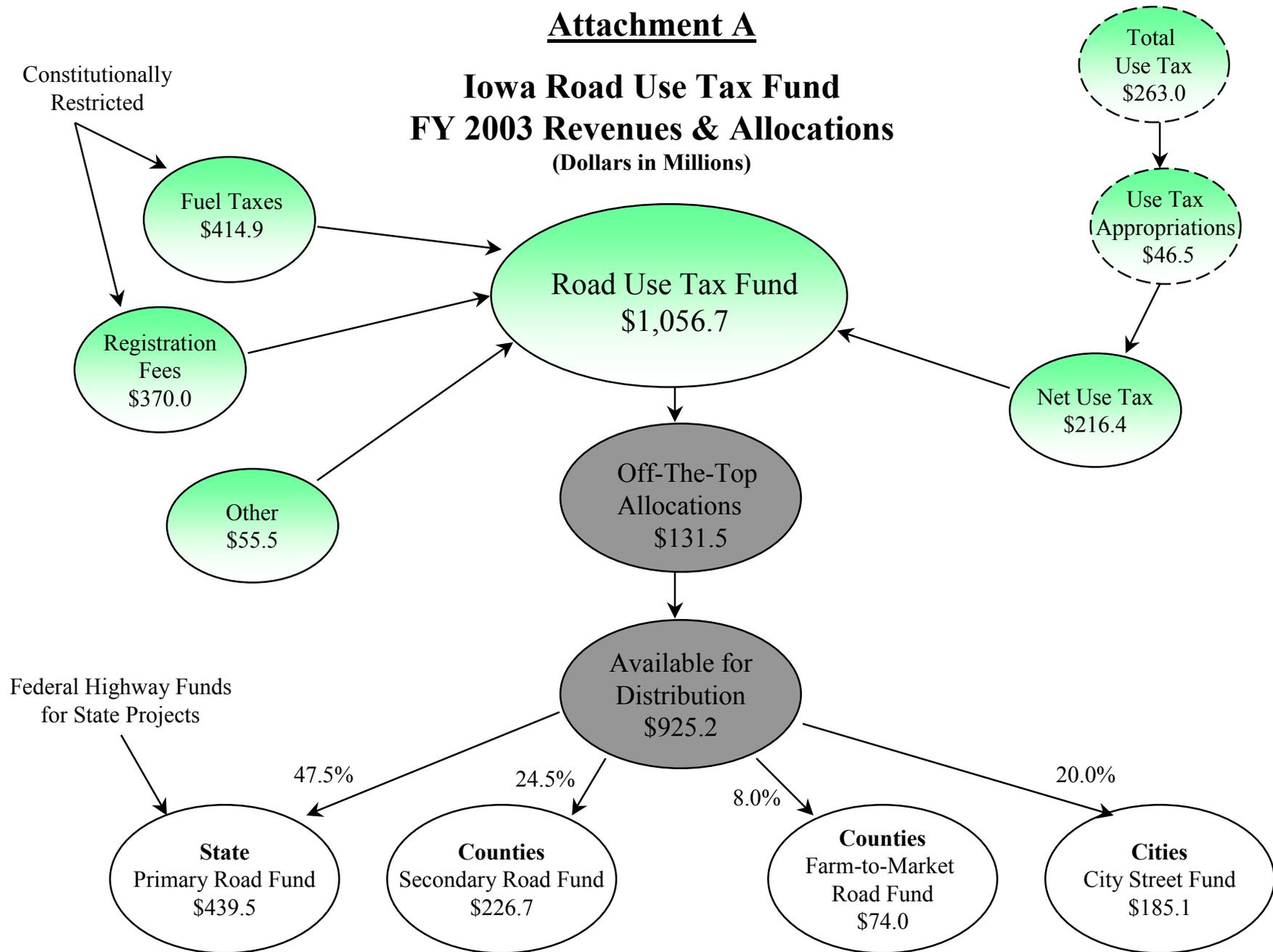
deposited into the Waste Tire Management Fund, while \$3.9 million was deposited into the Road Use Tax Fund. The \$983,000 deposited into the Waste Tire Management Fund was used to help offset \$1.6 million that was transferred to the General Fund in FY 2003. The transfer was used to help offset an anticipated decrease in General Fund revenues in FY 2003. Beginning in FY 2008, the entire amount collected from the \$5.00 surcharge fee will be deposited into the Road Use Tax Fund.

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Road Use Tax Fund Revenue Update
<http://staffweb.legis.state.ia.us/lfb/IREVIEW/irview.htm>
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Attachment A

Iowa Road Use Tax Fund FY 2003 Revenues & Allocations (Dollars in Millions)



NOTE: Numbers may not equal totals due to rounding.

Legislative Services Agency, Fiscal Services